

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
May 26, 2010**

A regular meeting of the Nebraska Investment Council convened at 8:36 a.m. at the Embassy Suites Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on April 13, 2010, and published in the Lincoln Journal Star on May 16, 2010. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

**MEMBERS PRESENT:**

Ms. Gail Werner-Robertson, Chairwoman  
Dr. Richard DeFusco  
Mr. John Dinkel  
Mr. Norm Riffel  
Treasurer Shane Osborn (departed at 10:50 a.m.)  
Ms. Phyllis Chambers

**MEMBERS ABSENT:**

Mr. John Maginn

**NONMEMBERS IN ATTENDANCE:**

Mr. Jeff States, State Investment Officer  
Ms. Kathy Dawes, Council Secretary  
Mr. Christopher Heinrich, Harding & Shultz  
Mr. Kevin Vandolder, Ennis Knupp + Associates  
Mr. Chris Riley, Ennis Knupp + Associates  
Mr. Joe Jurich, Nebraska Investment Council  
Ms. JoLynn Winkler, Nebraska Investment Council  
Ms. Gayle Wrasse, Nebraska Investment Council  
Ms. Heather Christopher, Ennis Knupp + Associates  
Ms. Rachel Biar, Director, College Savings Program  
Ms. Kate Allen, Nebraska Retirement Systems Committee  
Mr. Gary Bush, State Budget Office

**ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:36 a.m. to 8:37 a.m.** Ms. Werner-Robertson stated that a copy of the Open Meetings Act is located on the side table.

**APPROVAL OF THE MINUTES OF THE MARCH 17, 2010 MEETING: 8:37 a.m. to 8:39 a.m.** Mr. Dinkel moved that the March 23, 2010, draft of the minutes of the March 17, 2010, meeting be approved as written. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson

ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

**COUNCIL MEMBER BUSINESS: 8:39 a.m. to 8:48 a.m.** Ms. Werner-Robertson welcomed everyone to the meeting and informed the Council that Mr. Maginn was unable to attend today's meeting due to a death in the family. Ms. Werner-Robertson stated that Mr. States has been working on the Strategic Planning Retreat, which is scheduled for July 14-15, 2010, at Quarry Oaks Golf Club, Ashland, NE. Ms. Werner-Robertson stated that the main focus of the Retreat will be on strategic asset allocation, which determines approximately 90% of the returns. Before any decisions are made by the Council presentations will be given by Ennis Knupp on Universal Asset Allocation, alternatives in asset allocation and opportunistic strategies. Several investment managers are scheduled to present on portfolio positioning and assessment of current and long-term capital market opportunities.

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Mr. States informed the Council that the advertisement for the Back Office Manager is being run and that he hopes to receive State Personnel's approval for the Portfolio Manager in the near future. As soon as approval is received the job will be advertised.

**PRIVATE EQUITY PERFORMANCE AND PRESENTATION BY ENNIS KNUPP: 8:48 a.m. to 9:54 a.m.**  
**Market Update & Performance:** Mr. Parkinson updated the Council on EK's Private Equity Team. Ennis Knupp is currently searching for a lead for the Global Private Equity team. Mr. Parkinson stated that screening of qualified applicants is being conducted to narrow the field of candidates, and that EK hopes to have made an offer by mid-June. Mr. Parkinson and Mr. Sheran reviewed the Private Equity CY09 4<sup>th</sup> Quarter Performance Report and the CY10 1<sup>st</sup> Quarter Performance Report, which were both included in the meeting book. Their presentation included an overview of the market, portfolio overview, performance, and pacing update.

**Introduction of EIF Management, LLC:** Mr. Parkinson and Mr. Sheran reviewed with the Council a new fund being offered by EIF Management, LLC. EIF Management, LLC is a private equity firm with offices in Boston, MA, San Francisco, CA and New York, NY, investing in power assets located in the U.S. The fund, EIF US Power Fund IV, LP, will invest in power assets, including power generation and transmission assets, gas pipelines, storage facilities and related energy investments, by either acquiring existing operating facilities or by investing in the development and/or construction of new facilities.

Mr. Parkinson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of EIF Management, LLC. Mr. Parkinson also stated that a completed Placement Agent Questionnaire by EIF Management, LLC was included in the meeting book. Mr. Sheran discussed the investment merits and concerns associated with the Firm. Mr. Parkinson indicated that Ennis Knupp recommends that the Council commit \$20 million to EIF US Power Fund IV, LP. A copy of their presentation was included in the meeting book.

**PRESENTATION BY EIF MANAGEMENT, LLC: 9:54 a.m. to 10:50 a.m.** Mr. States introduced Mr. John E. Buehler, Jr., Managing Partner, Mr. Herbert Magid, Managing Partner, and Mr. Andrew N. Pike, Vice President. Their presentation included an organizational overview of the firm, investment strategy, track record, market opportunity and fund terms. A copy of the presentation was included in the meeting book.

Following the presentation by EIF Management, LLC, Mr. Dinkel moved to commit \$20 million to EIF US Power Fund IV, LP., pending legal review of the Limited Partnership Agreement by counsel provided by Ennis Knupp and by the Council's attorney. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson
	Dr. DeFusco

ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

The Council took a break and reconvened at 11:05 a.m.

**1<sup>ST</sup> QUARTER 2010 PERFORMANCE REPORT BY ENNIS KNUPP: 11:05 a.m. to 12:00 p.m.** Mr. Vandolder and Mr. Riley reviewed with the Council the 1<sup>st</sup> Quarter Performance Report included in the meeting book, commenting on the market environment, the portfolio's investments, and fee schedules. Mr. Riley discussed the memos included in the meeting book on the Oppenheimer Funds Capital Appreciation Fund Portfolio Manager change and updated the Council on Goldman Sachs. Mr. Riley indicated that no NIC funds were exposed in the transaction discussed in the memo, and that EK recommends no specific action be taken at this time on Goldman Sachs. Mr. Riley indicated that EK will be monitoring and updating the Council on all developments at Goldman Sachs.

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**REAL ESTATE PERFORMANCE AND FUND COMMITMENTS BY ENNIS KNUPP: 12:00 p.m. to 12:55 p.m.** Ms. Heather Christopher reviewed the Real Estate 4<sup>th</sup> Quarter Performance Report included in the meeting book. Ms. Christopher commented on the 4<sup>th</sup> quarter market environment, the portfolio's investments, and how they performed relative to their benchmark. Ms. Christopher also discussed the 2010 pacing outlook, which included a \$2.0 million dollar allocation to two core real estate funds. Ms. Christopher discussed the memo included in the meeting book regarding the 2010 allocations and indicated that Ennis Knupp recommends that \$500,000 be drawn by UBS Trumbull Property Fund at the end of June 2010, and to commit another \$500,000 to UBS Trumbull Property Fund on or before December 31, 2010, and to defer a decision on commitment of the remaining \$1.0 million core real estate allocation until a later date. Following discussion by the Council, Dr. DeFusco moved to adopt Ennis Knupp's recommendation. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson
	Dr. DeFusco

ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

The Council took a break and reconvened at 1:05 p.m.

**OPERATING INVESTMENT POOL (OIP) REVIEW AND PRESENTATION: 1:05 p.m. to 2:10 p.m.**

**Introduction and Overview by Ennis Knupp:** Mr. Vandolder and Mr. Riley reviewed with the Council the OIP portfolio. A portion of the portfolio is managed internally and since June 2009, the corporate portion has been managed externally by Galliard Capital Management, Inc. Mr. Riley reviewed the portfolio's performance, asset allocation, and portfolio quality. Mr. Riley indicated that representatives from Galliard are present at today's meeting to discuss the portfolio's performance and also to discuss the changes they are requesting in the investment guidelines. Mr. States stated that a copy of the OIP's *Statement of Objectives, Guidelines, and Procedures* and the *Investment Policy Statement* were included in the meeting book with Galliard's requested changes noted.

**Galliard Portfolio Review:** Mr. States introduced Mr. Richard Merriam, Managing Partner, Mr. David Ferry, Senior Director, and Mr. Erol Sonderegger, Director. Their presentation included the portfolio's objectives, goals, and performance and discussion on the requested guideline changes. Following discussion by the Council Mr. Dinkel moved to amend the Galliard Capital Management, Inc. agreement's *Appendix B - Statement of Objectives, Guidelines, and Procedures* to include Yankee Bonds under *Section E. Permissible Securities*, but to defer action on the additional changes to the guidelines until the July Strategic Planning Retreat. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Riffel
	Ms. Werner-Robertson
	Dr. DeFusco
	Mr. Dinkel

ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

**NPERS Director's Report: 2:10 p.m. to 2:35 p.m.** Ms. Chambers reported that NPERS' lease with TierOne has been renewed for two years and that the Agency's Disaster Recovery Plan is being updated. The PERB Retreat is scheduled for July 15, 2010, at Mahoney State Park and that Mr. Vandolder and Ms. Nancy Williams from Ennis Knupp will be presenting. Ms. Chambers distributed copies of the Employee/Employer Contribution Rates for the

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State Patrol, School Employees, Judges', State Employees, and County Employees. Ms. Chambers reported that an Interim Study will be done on the sustainability of the public retirement plans. A copy of the Employee/Employer Contribution Rates for the State Patrol, School Employees, Judges', State Employees, and County Employees is included in the attachments to the minutes.

**COLLEGE SAVINGS PLAN UPDATE: 2:35 p.m. to 2:40 p.m.** Ms. Biar reported that the Treasurer and First National Bank (FNB) will be meeting on May 28, 2010, regarding the conversion of the College Savings Plan of Nebraska to FNB as the new Program Manager for the. FNB will perform the administrative and marketing duties beginning January 2011.

**AUDIT COMMITTEE REPORT: 2:40 p.m. to 2:45 p.m.** Dr. DeFusco reported that Mr. Maginn, Mr. States, Ms. Jan Westerman, NIC Internal Auditor, and he had met after the March 17, 2010, Council meeting. Dr. DeFusco stated that the Audit Committee will meet next quarter with the Internal Auditor and report back to the Council at that time. A copy of the Audit Committee Report is included in the attachments to the minutes.

**GOVERNOR'S PAY FREEZE: 2:45 p.m. to 2:50 p.m.** Mr. States distributed copies of the email recently sent by Mike McCrory, Director of State Personnel, to all state employees regarding the Governor's decision to freeze rules covered employees' salaries for fiscal year 10-11. A copy of the email is included in the attachments to the minutes.

**STATE INVESTMENT OFFICER'S REPORT: 2:50 p.m. to 3:17 p.m.**

**Asset Summary Report:** Mr. States reported current assets under management of over \$14.3 billion.

**Agency Budget Update:** Mr. States reviewed the Agency's April 30, 2010 Budget Report included in the meeting book and indicated that the Agency is under-budget for the month and fiscal YTD.

**Staffing Update:** Mr. States reported that he has received approval from State Personnel for the creation of the Deputy State Investment Officer position. Mr. States stated that Mr. Jurich has assumed those duties and responsibilities as approved by the Council at the February 17, 2010, Council meeting. Mr. States reported that the ad for the Back Office Manager position is currently listed and that he hopes to have State Personnel's approval for creation of the additional Portfolio Manager in the near future to post that opening as well.

**Health Care Transfer:** Mr. States reviewed the Health Care Endowment Fund Report, which includes two separate accounts within the Fund (market value of \$329M as of 3/31/10): the NE Medicaid Intergovernmental Trust Fund (\$114M or 35% of the total fund) and the NE Tobacco Settlement Trust Fund (\$215M, or 65% of the total fund). Per Nebraska Revised Statute § 71-7611 "The State Treasurer shall transfer fifty-nine million one hundred thousand dollars annually no later than July 15" from the Fund. "The State Investment Officer upon consultation with the Nebraska Investment Council shall advise the State Treasurer" how much to allocate from each of the two components "in order to sustain such transfers in perpetuity." Mr. States reviewed the spreadsheet included in the meeting book, detailing expected cash inflows, cash outflows, and investment returns, which indicated that the annual payment of \$59.1 million appears sustainable. Mr. States recommended that he notify the State Treasurer to transfer 35% of the \$59.1 million annual payment (or \$20.7M) from the NE Medicaid Intergovernmental Trust Fund and 65% of the payment (or \$38.4M) from the NE Tobacco Settlement Trust Fund. Following discussion by the Council, because of a potential conflict of interest, Ms. Werner-Robertson indicated that she would abstain from voting. Dr. DeFusco moved to accept Mr. States' recommendation. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Dinkel
	Mr. Riffel

ABSTAINING:	Ms. Werner-Robertson
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ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

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**Legislative Update:** Mr. States updated the Council on legislation, which directly affects the Nebraska Investment Council. A copy of his report was included in the meeting book.

**July Board Retreat:** Mr. States discussed the upcoming Strategic Planning Retreat scheduled for July 14-15, 2010, at Quarry Oaks Golf Club. A copy of the proposed agenda was included in the meeting book. Mr. States noted that discussion of the OIP investment guidelines will also be added to the agenda. Mr. Vandolder stated that Ms. Nancy Williams and Mr. Armand Yambao from Ennis Knupp will also be attending the Retreat.

**IMA's executed since the last meeting:** Mr. States stated reported that the Landmark agreement and revision of the Loomis Sayles agreement were executed since the last Council meeting, as well as the agreement with Ennis Knupp to do an Asset Liability Study for presentation at the Retreat.

**Action Plan, Conferences, and Articles:** The next Council meeting will be the Strategic Planning Retreat, July 14-15, 2010, at Quarry Oaks Golf Club, Ashland, NE. Mr. States informed the Council that the Oppenheimer settlement is expected to be finalized by mid June. Mr. Riley invited the Council to Ennis Knupp's Client Conference, which is scheduled for September 1-2, 2010. Mr. States informed that Council that Ms. Werner-Robertson and he plan to attend IFE's Market Makers 2010 Conference, June 27-30, 2010, in Laguna Beach, CA.

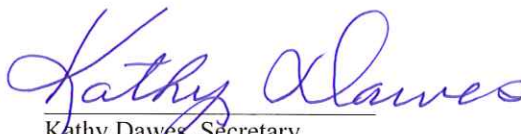
**PUBLIC COMMENT ON THE AGENDA: 3:17 p.m. to 3:18 p.m.** Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:18 p.m. Dr. DeFusco moved to adjourn the meeting. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson

ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

  
Kathy Dawes, Secretary